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FM AMEMBASSY BAGHDAD
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INFO RUCNRAQ/IRAQ COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002712

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E.O. 12958: DECL: 08/21/2018
TAGS: [ECON](#) [EFIN](#) [EPET](#) [PGOV](#) [IZ](#)
SUBJECT: MOPDC MINISTER BABAN ON MATCHING, BUDGET
EXECUTION, HYDROCARBONS

Classified By: A/DCM Charles P. Ries for reasons 1.4(b) and (d)

¶1. (C) Summary: At an August 18 meeting with Ambassador Ries and Ambassador Wall (CETI), Minister of Planning and Development Cooperation (MoPDC) Ali Baban said that DPM Barham Salih was circulating a draft letter related to the "commitment to obligate funds" for GOI ministerial approval. Baban outlined his own plan to devolve spending authority to line ministers and provincial governors so that they will be able to go directly to the Ministry of Finance without an MoPDC chop -- expediting the budget execution process. On hydrocarbons, Baban noted that at an early August Council of Ministers meeting, Minister of Oil Shahrastani presented a plan for service contract-based proposals that "were very conservative and would not support the major increase in production that the country needed to finance its development needs," said Baban. Baban added noted that PM Maliki, at this meeting, had opined that GoI should "ignore" the issue of Hydrocarbons legislation for now, since the antagonism with the Kurdish region would impede passage of the law in any case. End summary.

No Objection to "Dollar for dollar" Matching letter

¶2. (C) Baban told Amb. Ries and Amb. Wall that earlier that afternoon DPM Salih had presented a draft of a letter that he proposed to send to Ambassador Crocker related to the "commitment to obligate funds" to match on a dollar for dollar basis US assistance funding, as required by section 1402 of the 2008 GWOT supplemental. Baban said there was considerable confusion in the Council of Ministers Economic Committee meeting as to what the GoI was committing itself. Ambassador Ries explained that the purpose is to clarify that the GoI was committed to financing the greater share of its own development, and to at least match U.S. contributions in key functions. Baban replied that the Economic Committee did not object to the letter as presented by the DPM, although key ministers (Ministry of Finance's (MoF) Jabr, Ministry of Oil's (MoO) Shahrastani and Ministry of Energy's Kareem Walid) were traveling. Present in the meeting were Minister of Trade Sudani, Board of Supreme Audit head Abdul Basit, the PM's Economic Adviser Ghabban, and himself. EMIN told Baban that he had briefed MoF Jabr on the letter the previous day, and that Jabr had agreed to support it.

MoPDC: Getting out of Budget Execution Line of Fire

¶3. (C) Baban told us that he planned to remove the MoPDC as a hurdle in the budget execution process. "Within a few days" the Government would adopt a new package that would provide more authority to Ministers to release funds for capital projects without approval by the MoPDC. Ministers and Governors will be able to go directly to the Ministry of Finance without a MoPDC chop. The MoPDC would remain in the budget formulation process and would be increasing its attention to checks and audits afterwards. Baban said that

the change, which he said would be highly significant in the effort to increase the rate of budget execution, would "open the door a little bit to chaos and corruption" -- but it was a calculated risk. He noted that budget execution in 2008 was considerably ahead of 2007 already, with capital budget implementation at 40 percent through the end of July. In addition, work is well advanced on the 2009 budget proposal. Baban said that the size of the 2009 budget would depend on the price of oil at the end of the year, as it would be "pegged to revenues."

14. (C) Baban mentioned that he had objected to the distribution of the 2008 supplemental budget and in fact had been one of the "Gang of Three" Ministers that had refused to sign the budget proposal (by the Council of Ministers (CoM)) to the Council of Representatives. He felt the budget had far too much operating expenditures and not enough capital. He predicted the same debate will be joined for the 2009 regular budget.

Shahristani's TSA proposals do not receive CoM backing

15. (C) In a chatty mood, Baban also told us about the early August CoM meeting which considered MoO Shahristani's plans for oil and gas development. He said that a majority of ministers - including Baban and MoF Jabr - had considered Shahristani's proposals not ambitious enough, "very limited."

Baban said that Shahristani's service contract-based proposals were very conservative and would not support the major increase in production that the country needed to

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finance its development needs. Shahristani "didn't even mention" the hydrocarbons framework law (HCL), said Baban, while the Prime Minister offered his advice the GoI should "ignore" the HCL for now since the antagonism with the Kurdish region would impede passage of the law in any case. PM Maliki advocated proceeding, as Shahristani's service contract approach would do, on the basis of the Saddam era legislative framework. In the end, however, Maliki postponed hydrocarbon decisions to a subsequent meeting.

16. (C) As to his own views, Baban admitted he now favored offering production sharing agreements (PSA's) to international oil companies. Iraq needs the higher technology that oil companies can bring to accelerate oil production. What kind of contract used should depend on the characteristics of the field, he said. If the field is known and simple, service contracts may be appropriate. But for complex fields and new exploration, PSA's may be better. He admitted this was a decided change from his attitude on PSA's in 2007 (when he had excoriated them) and stemmed from his conviction that the MoO was moving far too slowly. Shahristani, he said, "admires the Iranian contract model."

17. (C) Comment: Baban's changes in views, about the added value of MoPDC in budget execution and the value of PSA's, were striking. Last year the former communist was an avid central planner and control advocate, as well as a resource nationalist. Over the past six months, however, he has been reorienting the MoPDC to serve as the principal coordinating institution for donor cooperation. Whether his more liberal views are related to this aspiration is as yet not clear.

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